

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                                 |  |                   |
|--|---------------------------------|--|-------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                                 | Local Unit Name<br>Highland Township                       | County<br>Osceola |
| Fiscal Year End<br>March 31, 2007  | Opinion Date<br>August 17, 2007 | Date Audit Report Submitted to State<br>September 27, 2007 |                   |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |                              |
| Other (Describe)   | <input type="checkbox"/>            |  |                              |
| Certified Public Accountant (Firm Name)<br>Baird, Cotter and Bishop, P.C.  |                                     | Telephone Number<br>231-775-9789           |                              |
| Street Address<br>134 W. Harris Street   |                                     | City<br>Cadillac                           | State<br>MI                  |
| Zip<br>49601   |                                     |  |                              |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Jonathan E. Damhof, C.P.A. | License Number<br>1101022613 |

**HIGHLAND TOWNSHIP, OSCEOLA COUNTY**

**MARION, MICHIGAN**

**MARCH 31, 2007**

***Baird, Cotter and Bishop, P.C.***

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

MARCH 31, 2007

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

August 17, 2007

### INDEPENDENT AUDITORS' REPORT

To the Township Board  
Highland Township  
Osceola County  
Marion, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Township, Osceola County, Marion, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Township, Osceola County, Marion, Michigan, as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Highland Township, Osceola County, Marion, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2007

Highland Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Highland Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$362,840. Of this amount, \$279,395 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$279,395.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** This report includes government-wide financial statements, as required by GASB 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government and administration, public safety and other functions. The Township supports no business-type activities.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2007

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Township are governmental funds.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$362,840 at March 31, 2007, meaning the Township’s assets were greater than its liabilities by this amount.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2007

**Highland Township**  
**Net Assets as of March 31, 2007**

|   | <b><u>Governmental<br/>Activities</u></b> |
|---|---|
| <b>Assets</b>                                   |   |
| Current Assets                                  | \$ 280,029                                |
| Non Current Assets                              |   |
| Capital Assets                                  | 145,846                                   |
| Less: Accumulated Depreciation                  | <u>(62,401)</u>                           |
| Total Non Current Assets                        | <u>83,445</u>                             |
| <b>Total Assets</b>                             | <b><u><u>\$ 363,474</u></u></b>           |
| <b>Liabilities</b>                              |   |
| Current Liabilities                             | <u>\$ 634</u>                             |
| <b>Net Assets</b>                               |   |
| Invested in Capital Assets, Net of Related Debt | 83,445                                    |
| Unrestricted                                    | <u>279,395</u>                            |
| <b>Total Net Assets</b>                         | <u>362,840</u>                            |
| <b>Total Liabilities and Net Assets</b>         | <b><u><u>\$ 363,474</u></u></b>           |

The most significant portions of the Township's Net Assets are unrestricted net assets.

At the end of the current fiscal year, the Township is able to report positive balance in net assets for the government as a whole.

The total net assets of the Township increased by \$54,229 in this fiscal year, which is a good indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.



HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2007

**Highland Township**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2007**

|                                  | <b><u>Governmental</u></b><br><b><u>Activities</u></b> |
|----------------------------------|--|
| <b><u>Revenues</u></b>           |  |
| <b>Program Revenues</b>          |  |
| Charges for Services             | \$ 1,230   |
| Capital Grants and Contributions | 6,792  |
| <b>General Revenues</b>          |  |
| Taxes                            | 34,477   |
| State Grants                     | 85,457   |
| Interest Earnings                | 8,229  |
| Other                            | 386  |
| <b>Total Revenues</b>            | <u>136,571</u>   |
| <b><u>Expenses</u></b>           |  |
| Legislative                      | 1,768  |
| General Government               | 58,933   |
| Public Safety                    | 15,561   |
| Other Functions                  | 6,080  |
| <b>Total Expenses</b>            | <u>82,342</u>  |
| Changes in Net Assets            | 54,229   |
| NET ASSETS - Beginning of Year   | <u>308,611</u>   |
| NET ASSETS - End of Year         | <u><u>\$ 362,840</u></u>                               |

**Governmental Activities**

During the fiscal year ended March 31, 2007, the Township's net assets increased by \$54,229 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Highland Township comes from state shared revenue and property taxes. The Township levied an operating millage this fiscal year.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In 2007, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The Township's governmental activities expenses are dominated by general governmental expenses that total \$58,933 of total expenses. Public Safety expenses represented the next largest expense at \$15,561 followed by Other Functions at \$6,080. Expenses for salaries represent a large portion of the general administrative expenses at \$22,938. Depreciation expense added another \$5,362.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** The focus of Highland Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Highland Township's governmental fund reported combined ending fund balances of \$279,395. 100% of this total amount constitutes unreserved fund balance.

**General Fund** – The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the General Fund and the total fund balance was \$279,395. All of the General Fund's functions ended the year with expenditures below budgeted amounts.

The fund balance of the Township's General Fund decreased by \$2,644 during the current fiscal year.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental activities as of March 31, 2007 amounted to \$83,445 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$2,000 individually for the General Fund. A summary of capital asset categories is illustrated below:

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2007

**Highland Township**  
**Capital Assets as of March 31, 2007**

|                                   | <u>2007</u>             |
|-----------------------------------|-------------------------|
| Land                              | \$ 1,759                |
| Buildings                         | 50,000                  |
| Building Improvements             | 5,495                   |
| Improvements Other Than Buildings | 65,327                  |
| Machinery and Equipment           | <u>23,265</u>           |
|                                   | 145,846                 |
| Less Accumulated Depreciation     | <u>(62,401)</u>         |
| <b>Net Capital Assets</b>         | <u><u>\$ 83,445</u></u> |

Major capital asset events during the current fiscal year included the following:

- ◆ Paved a portion of 70<sup>th</sup> Avenue at a cost of \$55,443.
- ◆ Received new voting equipment valued at \$6,792 through a grant from the federal Help America Vote Act program

**Long-Term Debt.** As of March 31, 2007, the Township had no outstanding debt.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2007-2008 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Highland Township at 21009 110<sup>th</sup> Avenue, Marion, Michigan 49665.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2007

|   | <u>GOVERNMENTAL<br/>ACTIVITIES</u> |
|---|------------------------------------|
| <u>ASSETS</u>                                   |                                    |
| <u>CURRENT ASSETS</u>                           |                                    |
| Cash  | \$ 257,597                         |
| Receivables                                     |                                    |
| Taxes   | 1,911                              |
| External Parties (Fiduciary Funds)              | 564                                |
| Due From Other Governments                      | <u>19,957</u>                      |
| Total Current Assets                            | <u>280,029</u>                     |
| <u>CAPITAL ASSETS</u>                           |                                    |
| Land  | 1,759                              |
| Buildings                                       | 50,000                             |
| Building Improvements                           | 5,495                              |
| Improvements Other Than Buildings               | 65,327                             |
| Machinery and Equipment                         | <u>23,265</u>                      |
|   | 145,846                            |
| Less Accumulated Depreciation                   | <u>(62,401)</u>                    |
| Net Capital Assets                              | <u>83,445</u>                      |
| TOTAL ASSETS                                    | <u><u>\$ 363,474</u></u>           |
| <u>LIABILITIES AND NET ASSETS</u>               |                                    |
| <u>LIABILITIES</u>                              |                                    |
| Accounts Payable                                | <u>\$ 634</u>                      |
| <u>NET ASSETS</u>                               |                                    |
| Invested in Capital Assets, net of related debt | 83,445                             |
| Unrestricted                                    | <u>279,395</u>                     |
| Total Net Assets                                | <u>362,840</u>                     |
| TOTAL LIABILITIES AND NET ASSETS                | <u><u>\$ 363,474</u></u>           |

The accompanying notes are an integral part of the financial statements.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2007

| FUNCTIONS/PROGRAMS                                    | EXPENSES  | PROGRAM REVENUES        |  | NET (EXPENSE)                            |
|---|-----------|-------------------------|--|--|
|   |           | CHARGES FOR<br>SERVICES | CAPITAL<br>GRANTS AND<br>CONTRIBUTIONS | REVENUES AND<br>CHANGES IN<br>NET ASSETS |
|   |           |                         |  | TOTALS                                   |
| <u>PRIMARY GOVERNMENT<br/>GOVERNMENTAL ACTIVITIES</u> |           |                         |  |  |
| Legislative   | \$ 1,768  | \$ 0                    | \$ 0                                   | \$ (1,768)                               |
| General Government                                    | 58,933    | 565                     | 6,792                                  | (51,576)                                 |
| Public Safety   | 15,561    | 665                     | 0                                      | (14,896)                                 |
| Other Functions                                       | 6,080     | 0                       | 0                                      | (6,080)                                  |
| Total Governmental Activities                         | \$ 82,342 | \$ 1,230                | \$ 6,792                               | (74,320)                                 |

GENERAL REVENUES

|                                       |                   |
|---------------------------------------|-------------------|
| Taxes                                 | 34,477            |
| State Grants                          | 85,457            |
| Interest Earnings                     | 8,229             |
| Other                                 | 386               |
| Total General Revenues                | <u>128,549</u>    |
| Change in Net Assets                  | 54,229            |
| <u>NET ASSETS</u> - Beginning of Year | <u>308,611</u>    |
| <u>NET ASSETS</u> - End of Year       | <u>\$ 362,840</u> |

The accompanying notes are an integral part of the financial statements.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2007

|                                       | <u>GENERAL<br/>FUND</u> |
|---------------------------------------|-------------------------|
| <u>ASSETS</u>                         |                         |
| Cash                                  | \$ 257,597              |
| Taxes Receivable                      | 1,911                   |
| Due from Other Funds                  | 564                     |
| Due from Other Governments            | 19,957                  |
| TOTAL ASSETS                          | <u>\$ 280,029</u>       |
| <u>LIABILITIES AND FUND BALANCE</u>   |                         |
| <u>LIABILITIES</u>                    |                         |
| Accounts Payable                      | \$ 634                  |
| <u>FUND BALANCE</u>                   |                         |
| Unreserved                            |                         |
| Undesignated                          | <u>279,395</u>          |
| TOTAL LIABILITIES<br>AND FUND BALANCE | <u>\$ 280,029</u>       |

The accompanying notes are an integral part of the financial statements.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2007

|  |            |
|--|------------|
| Total Fund Balances for Governmental Funds | \$ 279,395 |
|--|------------|

Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

|                                   |                 |               |
|-----------------------------------|-----------------|---------------|
| Land                              | 1,759           |               |
| Buildings                         | 50,000          |               |
| Building Improvements             | 5,495           |               |
| Improvements Other Than Buildings | 65,327          |               |
| Machinery and Equipment           | 23,265          |               |
| Accumulated Depreciation          | <u>(62,401)</u> | <u>83,445</u> |

|                                       |                   |
|---------------------------------------|-------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 362,840</u> |
|---------------------------------------|-------------------|

The accompanying notes are an integral part of the financial statements.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

|   | <u>GENERAL<br/>FUND</u>  |
|---|--------------------------|
| <u>REVENUES</u>                         |                          |
| Taxes                                   | \$ 34,477                |
| Licenses and Permits                    | 665                      |
| Federal Grants                          | 6,792                    |
| State Grants                            | 85,457                   |
| Charges for Services                    | 384                      |
| Interest and Rents                      | 8,410                    |
| Other Revenues                          | <u>386</u>               |
| Total Revenues                          | <u>136,571</u>           |
| <u>EXPENDITURES</u>                     |                          |
| Legislative                             | 1,768                    |
| General Government                      | 60,363                   |
| Public Safety                           | 15,561                   |
| Public Works                            | 55,443                   |
| Other Functions                         | <u>6,080</u>             |
| Total Expenditures                      | <u>139,215</u>           |
| Net Change in Fund Balance              | (2,644)                  |
| <u>FUND BALANCE</u> - Beginning of Year | <u>282,039</u>           |
| <u>FUND BALANCE</u> - End of Year       | <u><u>\$ 279,395</u></u> |

The accompanying notes are an integral part of the financial statements.



HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED 'MARCH 31, 2007

|   |            |
|---|------------|
| Net change in Fund Balance - Total Governmental Funds | \$ (2,644) |
|---|------------|

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

|                      |               |
|----------------------|---------------|
| Depreciation Expense | (5,362)       |
| Capital Outlay       | <u>62,235</u> |

|   |                         |
|---|-------------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 54,229</u></u> |
|---|-------------------------|

The accompanying notes are an integral part of the financial statements.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

MARCH 31, 2007

|                       | <u>ASSETS</u> | <u>AGENCY</u> |
|-----------------------|---------------|---------------|
| <u>CURRENT ASSETS</u> |               |               |
| Cash                  |               | \$ 564        |
|                       |               |               |
| <u>LIABILITIES</u>    |               |               |
| Due to Other Funds    |               | \$ 564        |

The accompanying notes are an integral part of the financial statements.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Highland Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Highland Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally Highland Township reports the following fund type:

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Township Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- A. Bonds, securities, and other obligations of the United States or an agency or an instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Highland Township Board at the Board's organizational meeting after each regular election of Township board members.
- C. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- D. Repurchase agreements consisting of instruments listed in (A).
- E. Banker's acceptances of the United States banks.
- F. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than 1 standard rating service.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

G. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

H. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

**2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes are levied and due July 1, and become delinquent after September 14. County, township operating and school taxes are levied and due December 1, and become delinquent after February 14. Collections of school, township operating and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of the Highland Township totaled \$26,641,826, on which ad valorem taxes levied consisted of 0.8814 mills for the Highland Township operating purposes. These levies raised approximately \$23,477 for operating purposes.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

| <u>ASSETS</u>                | <u>YEARS</u> |
|------------------------------|--------------|
| Buildings                    | 50           |
| Building improvements        | 20           |
| Land improvements            | 20           |
| Public domain infrastructure | 20           |
| Vehicles                     | 10           |
| Equipment                    | 5-10         |

Highland Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township started to capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 28, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

|              | <u>APPROPRIATIONS</u> | <u>EXPENDITURES</u> |
|--------------|-----------------------|---------------------|
| General Fund |                       |                     |
| Elections    | \$ 6,200              | \$ 11,409           |

These overages were funded by available fund balance.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits and investments are all on deposit with banks located in the State of Michigan.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the



HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, \$121,744 of the government's bank balance of \$259,964 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end all of the Township's investments were uncategorized as to risk.

At year-end, there were no assets that would qualify as investments.

Balance sheet classifications:

|      | Government |           |            |
|------|------------|-----------|------------|
|      | Wide       | Fiduciary | Total      |
| Cash | \$ 257,597 | \$ 564    | \$ 258,161 |

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

|                            | <u>General</u>   |
|----------------------------|------------------|
| Receivables                |                  |
| Taxes                      | \$ 1,911         |
| Due from Other Governments | <u>19,957</u>    |
|                            | <u>\$ 21,868</u> |

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year the Township did not report any deferred revenue.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**C. Capital Assets**

Primary Government

|  | Beginning<br>Balance | Increases | Decreases | Ending<br>Balance |
|--|----------------------|-----------|-----------|-------------------|
| <u>Governmental activities:</u>              |                      |           |           |                   |
| Capital assets, not being depreciated        |                      |           |           |                   |
| Land   | \$ 1,759             | \$ 0      | \$ 0      | \$ 1,759          |
| Capital assets, being depreciated            |                      |           |           |                   |
| Buildings                                    | 50,000               | 0         | 0         | 50,000            |
| Building Improvements                        | 5,495                | 0         | 0         | 5,495             |
| Improvements Other Than Buildings            | 9,884                | 55,443    | 0         | 65,327            |
| Machinery and Equipment                      | 16,473               | 6,792     | 0         | 23,265            |
| Total capital assets, being depreciated      | 81,852               | 62,235    | 0         | 144,087           |
| Less accumulated depreciation for:           |                      |           |           |                   |
| Buildings                                    | 41,500               | 1,000     | 0         | 42,500            |
| Building Improvements                        | 3,967                | 107       | 0         | 4,074             |
| Improvements Other Than Buildings            | 1,950                | 2,700     | 0         | 4,650             |
| Machinery and Equipment                      | 9,622                | 1,555     | 0         | 11,177            |
| Total accumulated depreciation               | 57,039               | 5,362     | 0         | 62,401            |
| Total capital assets, being depreciated, net | 24,813               | 56,873    | 0         | 81,686            |
| Governmental activities capital assets, net  | \$ 26,572            | \$ 56,873 | \$ 0      | \$ 83,445         |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

|                    |                 |
|--------------------|-----------------|
| General Government | <u>\$ 5,632</u> |
|--------------------|-----------------|

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2007.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2007 were:

|                             | DUE FROM<br>OTHER<br>FUNDS | DUE TO<br>OTHER<br>FUNDS |
|-----------------------------|----------------------------|--------------------------|
| General Fund                | \$ 564                     | 0                        |
| Fiduciary Funds             |                            |                          |
| Current Tax Collection Fund | 0                          | 564                      |
|                             | <u>\$ 564</u>              | <u>\$ 564</u>            |

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

No interfund transfers occurred during the fiscal year ended March 31, 2007.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Long-Term Debt**

At March 31, 2007, the Township was not obligated for any long-term debt.

**F. Fire Protection Contract**

The Township has a contract with the Marion Community Fire Department and paid \$14,353 for fire protection for the period March 1, 2006 to February 28, 2007.

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007

the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including worker's compensation insurance and fidelity bonds.

**B. Due from Other Governments**

Amounts due from other governments consists of \$19,957 in state-shared revenues.

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

|   | <u>GENERAL FUND</u> |               |               |
|---|---------------------|---------------|---------------|
|   | <u>ORIGINAL</u>     | <u>FINAL</u>  |               |
|   | <u>BUDGET</u>       | <u>BUDGET</u> | <u>ACTUAL</u> |
| <u>REVENUES</u>                         |                     |               |               |
| Taxes                                   | \$ 24,000           | \$ 24,000     | \$ 34,477     |
| Licenses and Permits                    | 500                 | 500           | 665           |
| Federal Grants                          | 0                   | 0             | 6,792         |
| State Grants                            | 80,000              | 80,000        | 85,457        |
| Charges for Services                    | 0                   | 0             | 384           |
| Interest and Rents                      | 3,000               | 3,000         | 8,410         |
| Other Revenues                          | 3,200               | 3,200         | 386           |
| Total Revenues                          | 110,700             | 110,700       | 136,571       |
| <u>EXPENDITURES</u>                     |                     |               |               |
| Legislative                             |                     |               |               |
| Township Board                          | 4,500               | 4,500         | 1,768         |
| General Government                      |                     |               |               |
| Supervisor                              | 2,953               | 2,953         | 2,691         |
| Election                                | 6,200               | 6,200         | 11,409        |
| Assessor                                | 18,000              | 18,000        | 11,121        |
| Clerk                                   | 11,484              | 11,484        | 9,321         |
| Board of Review                         | 3,000               | 3,000         | 1,075         |
| Treasurer                               | 12,584              | 12,584        | 12,296        |
| Building and Grounds                    | 5,900               | 8,900         | 6,681         |
| Cemetery                                | 4,500               | 7,500         | 5,769         |
| Public Safety                           |                     |               |               |
| Fire Department                         | 14,500              | 14,500        | 14,353        |
| Planning and Zoning                     | 5,000               | 5,000         | 1,208         |
| Public Works                            | 90,000              | 90,000        | 55,443        |
| Recreation and Culture                  | 925                 | 925           | 0             |
| Other Functions                         | 7,400               | 7,400         | 6,080         |
| Contingencies                           | 84,000              | 78,000        | 0             |
| Total Expenditures                      | 270,946             | 270,946       | 139,215       |
| Net Change in Fund Balance              | (160,246)           | (160,246)     | (2,644)       |
| <u>FUND BALANCE</u> - Beginning of Year | 260,938             | 260,938       | 282,039       |
| <u>FUND BALANCE</u> - End of Year       | \$ 100,692          | \$ 100,692    | \$ 279,395    |

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

GENERAL FUND

BALANCE SHEET  
MARCH 31, 2007

ASSETS

|                            |             |
|----------------------------|-------------|
| Cash                       |             |
| Commercial Account         | \$ 1,288    |
| Money Market Account       | 36,309      |
| Certificate of Deposit     | 220,000     |
| Taxes Receivable           | 1,911       |
| Due from Other Governments | 19,957      |
| Due from Other Funds       | 564         |
|                            | <hr/>       |
| TOTAL ASSETS               | \$ 280,029  |
|                            | <hr/> <hr/> |

LIABILITIES AND FUND BALANCE

LIABILITIES

|                  |        |
|------------------|--------|
| Accounts Payable | \$ 634 |
|------------------|--------|

FUND BALANCE

|            |         |
|------------|---------|
| Balance    |         |
| Unreserved | 279,395 |
|            | <hr/>   |

|                                    |             |
|------------------------------------|-------------|
| TOTAL LIABILITIES AND FUND BALANCE | \$ 280,029  |
|                                    | <hr/> <hr/> |

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL  
FOR THE YEAR ENDED MARCH 31, 2007

|   | <u>BUDGET</u> | <u>ACTUAL</u> |
|---|---------------|---------------|
| <u>REVENUES</u>                         |               |               |
| Taxes                                   | \$ 24,000     | \$ 34,477     |
| Licenses and Permits                    | 500           | 665           |
| Federal Grants                          | 0             | 6,792         |
| State Grants                            | 80,000        | 85,457        |
| Charges for Services                    | 0             | 384           |
| Interest and Rents                      | 3,000         | 8,410         |
| Other Revenues                          | 3,200         | 386           |
|   | <hr/>         | <hr/>         |
| Total Revenues                          | 110,700       | 136,571       |
|   | <hr/>         | <hr/>         |
| <u>EXPENDITURES</u>                     |               |               |
| Legislative                             |               |               |
| Township Board                          | 4,500         | 1,768         |
| General Government                      |               |               |
| Supervisor                              | 2,953         | 2,691         |
| Election                                | 6,200         | 11,409        |
| Assessor                                | 18,000        | 11,121        |
| Clerk                                   | 11,484        | 9,321         |
| Board of Review                         | 3,000         | 1,075         |
| Treasurer                               | 12,584        | 12,296        |
| Building and Grounds                    | 8,900         | 6,681         |
| Cemetery                                | 7,500         | 5,769         |
| Public Safety                           |               |               |
| Fire Department                         | 14,500        | 14,353        |
| Planning and Zoning                     | 5,000         | 1,208         |
| Public Works                            | 90,000        | 55,443        |
| Recreation and Culture                  | 925           | 0             |
| Other Functions                         | 7,400         | 6,080         |
| Contingencies                           | 78,000        | 0             |
|   | <hr/>         | <hr/>         |
| Total Expenditures                      | 270,946       | 139,215       |
|   | <hr/>         | <hr/>         |
| Net Change in Fund Balance              | (160,246)     | (2,644)       |
| <u>FUND BALANCE - Beginning of Year</u> | 260,938       | 282,039       |
|   | <hr/>         | <hr/>         |
| <u>FUND BALANCE - End of Year</u>       | \$ 100,692    | \$ 279,395    |
|   | <hr/>         | <hr/>         |



HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED MARCH 31, 2007

|                          | BALANCE  |            |            |    | BALANCE   |
|--------------------------|----------|------------|------------|----|-----------|
|                          | 4/1/2006 | ADDITIONS  | DEDUCTIONS |    | 3/31/2007 |
| <u>ASSETS</u>            |          |            |            |    |           |
| Cash                     | \$ 717   | \$ 749,402 | \$ 749,555 | \$ | 564       |
| TOTAL ASSETS             | \$ 717   | \$ 749,402 | \$ 749,555 | \$ | 564       |
| <u>LIABILITIES</u>       |          |            |            |    |           |
| Due to Other Funds       | \$ 717   | \$ 32,942  | \$ 33,095  | \$ | 564       |
| Due to Other Governments | 0        | 716,460    | 716,460    |    | 0         |
| Total Liabilities        | \$ 717   | \$ 749,402 | \$ 749,555 | \$ | 564       |

HIGHLAND TOWNSHIP, OSCEOLA COUNTY  
MARION, MICHIGAN

STATEMENT OF 2006 TAX ROLL  
MARCH 31, 2007

TAXES ASSESSED

|                                  |    |                |         |
|----------------------------------|----|----------------|---------|
| County                           | \$ | 244,683        |         |
| County - State Education Tax     |    | 159,848        |         |
| Township                         |    | 23,477         |         |
| Schools                          |    |                |         |
| Marion Public Schools            |    | 130,410        |         |
| McBain Rural Agricultural School |    | 75,939         |         |
| Intermediate School              |    |                |         |
| Wexford-Missaukee                |    | <u>158,299</u> | 792,656 |

TAXES COLLECTED

|                                  |  |                |                |
|----------------------------------|--|----------------|----------------|
| County                           |  | 226,987        |                |
| County - State Education Tax     |  | 149,958        |                |
| Township                         |  | 21,566         |                |
| Schools                          |  |                |                |
| Marion Public Schools            |  | 117,751        |                |
| McBain Rural Agricultural School |  | 72,770         |                |
| Intermediate School              |  |                |                |
| Wexford-Missaukee                |  | <u>145,412</u> | <u>734,444</u> |

TAXES RETURNED DELINQUENT

|                                  |  |               |                  |
|----------------------------------|--|---------------|------------------|
| County                           |  | 17,696        |                  |
| County - State Education Tax     |  | 9,890         |                  |
| Township                         |  | 1,911         |                  |
| Schools                          |  |               |                  |
| Marion Public Schools            |  | 12,659        |                  |
| McBain Rural Agricultural School |  | 3,169         |                  |
| Intermediate School              |  |               |                  |
| Wexford-Missaukee                |  | <u>12,887</u> | <u>\$ 58,212</u> |

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

August 17, 2007

### LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board  
Highland Township  
Osceola County  
Marion, Michigan

During the course of our audit of the financial statements of Highland Township for the year ended March 31, 2007, we noted the following:

#### Budgeting

The Township's expenditures exceeded appropriations in the General Fund in the Elections activity. The overage in Elections was due to an audit adjustment that recorded the receipt of new voting equipment through a grant program. The Township monitored and amended timely the other fund budgets and did a good job following the spirit of the State of Michigan's budgeting requirements.

#### Property Tax Administration Fee

The Township is charging a 1% property tax administration fee. The Township has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but had not formally taken action to write off this loss. We recommend that the Township keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

#### Credit Card Policy

During the course of our audit we found that the Township was using a store credit card. Further, it was found that the Township has not adopted a written credit card policy. According to Public Act 266 of 1995 the Township must adopt a written credit card policy to be a party to a credit card arrangement. We recommend the Township adopt a written policy governing the control and use of credit cards.

We would like to thank the board for its continued confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

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August 17, 2007

To the Township Board  
Highland Township  
Osceola County  
Marion, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Highland Township, Osceola County, Marion, Michigan as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Highland Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

### 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be

implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

3) Single signature on disbursement checks

The disbursement checks of the Township routinely contain only one signature. The Michigan Uniform Accounting Procedures manual notes that "Dual signatures are required for all checking accounts (except the separate tax collection checking account). The dual signatures MUST be the clerk (or deputy clerk) and the treasurer (or deputy treasurer)." Having two signatures on all disbursement checks will significantly improve internal control over cash. We recommend that the Township implement a policy of requiring two signatures on all disbursement checks to improve internal control over cash.

The Township board helps to reduce this risk by approval of bills at regular board meetings.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described in (1) above (Lack of Segregation of Duties) constitutes a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*